

DATE: August 28, 2014

TO: Thomas J. Bonfield, City Manager

THROUGH: Wanda Page, Deputy City Manager

FROM: Regina Youngblood, Human Resources Director
Michele Cash, Human Resources Manager

SUBJECT: Reliance Standard Life Insurance Company

Executive Summary

Effective September 1, 2013, the City of Durham contracted with Reliance Standard Life Insurance Company (RSLI) to insure the City of Durham against high dollar claims (\$225,000 Individual/\$250,000 Aggregate) processed through the health insurance plan.

Although typically the City's benefit contracts are awarded over multiple years, changes due to the Affordable Care Act have prompted stop loss carriers to only award contracts in one year increments based on a groups' experience rating.

Recommendation

To authorize the City Manager to execute a contract with Reliance Standard Life Insurance Company in the amount of \$844,166 to insure the City of Durham against high dollar claims processed through the health insurance plan.

This recommendation will allow the existing contract to continue until August 31, 2015. In October 2014, the City will complete Requests for Proposals (RFPs) for all City benefit contracts for a September 1, 2015 effective date. The stop loss contract will be included in that process.

Background

In June of 2013, the City of Durham was notified by Blue Cross Blue Shield of North Carolina (BCBSNC) that the existing stop loss insurance premium for the period of 2013-2014 would increase 30.8% effective September 1, 2013. This increase followed a 60% increase in stop loss premiums for the 2011-2012 and 2012-2013 plan years. At that time, the City requested that Independent Benefits Advisors (IBA), the City's insurance broker and consultant, investigate the possibility of obtaining this coverage elsewhere at a more affordable price.

IBA researched options for the City of Durham and recommended that the City unbundle its stop loss coverage from the BCBSNC health insurance contract and award the contract to

RSLI. RSLI's contracted price for the 2013-2014 plan year saved the City \$126,225 over the price proposed by BCBSNC. Since that time, IBA has moved the majority of its' large group accounts to RSLI.

As originally stated, stop loss carriers base their premiums on the experience rating of a particular group. For the 2013-2014 plan year, the City has already experienced five unplanned instances of high dollar claims that may reach or exceed the full amount of \$699,000 paid to RSLI in premiums.

Issues/Analysis

IBA bundles its book of business in order to obtain the best possible price for customers. Although the City has experienced claims expenses that will more than likely reach or exceed the premiums paid for this coverage, RSLC will offer the City a competitive price for this service in order to keep IBA's overall book of business. If the City were to try to obtain other coverage at this time, the City would be required to use our current claims experience which would lead to higher than anticipated premium increases.

RSLI proposed for all its groups under IBA a 9% premium increase. Further, it proposes that the City of Durham pay an additional surcharge of 4% due to our higher than average claims expense for several high dollar participants for an overall increase of 13%.

Alternatives

RSLI will eliminate the 4% surcharge to the City of Durham if the City agrees to exclude two of the City's members when calculating stop loss reimbursement. The claims of these two members are currently larger than the 4% surcharge and their health conditions are not expected to improve. It is not recommended that we adopt this alternative.

Financial Impacts

The fee charged by RSLI will be \$25.15 per member per month with an expected average member count of 2,620. Further, the City of Durham must pay BCBSNC a penalty of \$53,400 for not using their stop loss product. The total cost of this contract will be approximately \$844,116. A draft of this contract can be found in Exhibit 1.

SDBE Summary

Attached